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FM AIT TAIPEI
TO RUEHC/SECSTATE WASHDC 3163
RUEATRS/DEPT OF TREASURY WASHDC
INFO RUCPDOG/USDOC WASHDC
RUEHBK/AMEMBASSY BANGKOK 3486
RUEHBJ/AMEMBASSY BEIJING 5981
RUEHUL/AMEMBASSY SEOUL 8272
RUEHGP/AMEMBASSY SINGAPORE 6693
RUEHKO/AMEMBASSY TOKYO 8240
RUEHML/AMEMBASSY MANILA 9846
RUEHJA/AMEMBASSY JAKARTA 3946
RUEHKL/AMEMBASSY KUALA LUMPUR 3595
RUEHHI/AMEMBASSY HANOI 3161
RUEHBY/AMEMBASSY CANBERRA 4376
RUEHWL/AMEMBASSY WELLINGTON 1616
RUEHHK/AMCONSUL HONG KONG 7201
RUEHGH/AMCONSUL SHANGHAI 0562
RUEHGZ/AMCONSUL GUANGZHOU 9744

UNCLAS SECTION 01 OF 02 TAIPEI 003945

SIPDIS

SIPDIS

STATE PLEASE PASS USTR
STATE FOR EAP/RSP/TC, EAP/EP
USTR FOR ALTBACH
USDOC FOR 3132/USFCS/OIO/EAP/WZARIT
TREASURY FOR OASIA/LMOGHTADER
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN

E.O. 12958: N/A

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SUBJECT: Foreign Investment in Taiwan Surges 291 Percent

REF: Taipei 2695

11. SUMMARY. Inbound foreign direct investment (FDI) has increased by 291 percent so far this year. Major factors behind the sharp increase include Philips Taiwan transferring local holdings to Philips Holland; several large merger and acquisition (M&A) projects; and a new regulation which allows foreign investors to use local bank loans to finance their Taiwan projects. Low funding costs will continue to attract foreign investors in the foreseeable future. END SUMMARY.

Approved FDI Surges

12. Approved FDI in the first ten months this year nearly tripled over the same period last year to US\$11.23 billion, a 290.97 percent year-on-year increase. One factor was Philips Electronics Industries (Taiwan) transferring in January 2006 its holdings in Taiwan Semiconductor Manufacturing Company (TSMC), the world largest semiconductor foundry, to Royal Philips Electronics of the Netherlands. This deal totaled US\$3.8 billion which accounted for 33.5% of total FDI approved in the first ten months this year. The equity transfer is defined as FDI for balance of payments (BOP) accounting purposes even though it does not represent a flow of new money into Taiwan.

13. New projects also made a significant contribution to FDI growth. Approved FDI without the Philips ownership transfer still registered a growth of 137.6% in January and 160% over the first ten months of the year. By quarter, the growth rates were 266.4% in Q1 (excluding Philips transferring transaction), 129.7% in Q2, 66.6% in Q3, and 460.5% in October.

M&A

14. M&A projects were also a major contributor to the growth in

approved FDI so far this year, especially in the financial sector. These M&A projects included GE Consumer Finance's acquisition of Cosmos Bank, New Bridge's and Nomura's acquisition of equity in Taishin Financial Holdings, Carlyle Group's acquisition of Eastern Technology and Eastern TV, SIPF B.V. trading in stocks in Jih Sun Financial Holdings, and Standard Chartered Bank's merger with Hsinchu International Bank.

FDI Concentrated on Four Industries

15. Approved FDI so far this year were concentrated in electronics, banking, science and technology services, and trade. These four categories accounted for nearly 90% of total approved FDI.

Local Bank Loans as Sources of FDI

16. Earlier this year, Taiwan started permitting foreign investors to use NTD loans obtained from local banks to serve as a source of FDI. Since then, many foreign investors (particularly private equity funds) have obtained NTD and foreign currency loans from local banks to fund their FDI projects in Taiwan. This type of transaction will be recorded in the BOP books as credit to the FDI account and debit to a nonresident's liability to a local bank.

COMMENT

17. FDI into Taiwan will continue to increase in the foreseeable future due to low cost convenient funding and attractive Taiwan companies. Interest rates for NTD bank loans are about 2%, the

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second lowest in East Asia after Japan. As reported reftel, Taiwan's banking sector has significant excess liquidity, making it very easy for foreign investors to obtain loans from local banks.

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